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Nos. 14-1513 & 14-1520

IN THE

Supreme Court of the United States

HALO ELECTRONICS, INC., *Petitioner*,
v.
PULSE ELECTRONICS, INC., ET AL., *Respondents*.

STRYKER CORPORATION, ET AL., *Petitioners*,
v.
ZIMMER, INC., ET AL., *Respondents*.

On Writs of Certiorari
to the United States Court of Appeals
for the Federal Circuit

BRIEF OF *AMICUS CURIAE* ASKELADDEN LLC IN SUPPORT OF NEITHER PARTY

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INTEREST OF THE *AMICUS CURIAE*

Askeladden L.L.C. is an education, information, and advocacy organization dedicated to improving the understanding, use, reliability, and quality of patents pertinent to financial services and other industries. Askeladden seeks to improve the United States patent system by, among other things, submitting *amicus curiae* briefs directed to important issues of patent law. *E.g.*, *Commil USA, LLC v. Cisco Sys., Inc.*, No. 13-896.[1]

Askeladden is a wholly owned subsidiary of The Clearing Housing Payments Company L.L.C. Established in 1853, The Clearing House is the oldest banking association and payments company in the United States. It is owned by the world's largest commercial banks, which collectively hold more than half of all deposits in the United States and that employ more than one million people in the United States and more than two million people worldwide. The Clearing House clears almost $2 trillion each day, which represents nearly half of all automated clearing house, funds transfer, and check-image payments made in the United States. Its affiliate, The Clearing House Association L.L.C., is a nonpartisan advocacy organization that advances the interests of its owner banks by promoting and developing policies that support a safe, sound, and competitive banking system.

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[1] Askeladden states that: (i) no counsel for a party authored this brief in whole or in part; and (ii) no person other than the *amicus curiae* or its counsel financially contributed to the preparation of this brief. All parties have consented to the filing of this brief.

Askeladden believes that a strong patent system is vital for continued economic growth; indeed, many of the member banks of The Clearing House own patents that relate to financial products and services. Askeladden also believes, however, that it would unreasonably chill innovation if punitive damages for infringement were imposed on companies that develop their products in good faith. Thus, although Askeladden takes no position on the questions whether the Federal Circuit's specific two-part test for enhanced damages is sound or whether the Federal Circuit correctly held that punitive damages are not available in either of the cases before the Court, Askeladden has a strong interest with respect to whether the Court retains the traditional patent law requirement that only willful patent infringers can be subject to increased damages under 35 U.S.C. § 284.

Significantly for Askeladden and the member banks of The Clearing House, a willfulness requirement provides an important check against patent abuse. In recent years, some entities have made a business out of acquiring patents (without regard to quality) and then threatening and bringing suit against dozens or even hundreds of companies that use products or business methods with a tenuous connection to the claimed inventions in order to extract settlement payments. Financial services companies have been common targets for these abusive practices, as plaintiffs take advantage of the enormous exposure created by the sheer volume of transactions in which financial services companies and their customers engage. If willfulness were eliminated as a gatekeeping requirement,

leaving individual district court judges with open-ended discretion to treble damages for ordinary patent infringement, it would encourage patent abuse by increasing the leverage patentees have to coerce defendants to settle even dubious claims.

Askeladden urges the Court to: (1) reject petitioners' invitations to fundamentally change the basis upon which enhanced damages are awarded for patent infringement, and (2) ensure that whatever rule it adopts will protect defendants acting in good faith from exposure to treble damages.

SUMMARY OF ARGUMENT

For well over a century, courts have limited awards of enhanced damages in patent cases to instances of willful infringement. When paired with strict liability for infringement, this settled rule balances the patent law's interests in rewarding innovation while encouraging legitimate competition and good-faith challenges to questionable patents. On the one hand, patentees receive full compensation for the unlicensed use of their inventions without regard to fault. *See* 35 U.S.C. § 284; *Commil USA, LLC v. Cisco Sys., Inc.*, 135 S. Ct. 1920, 1926 (2015). On the other hand, defendants are only subject to *extra* damages beyond the amount needed to provide compensation if the defendants' conduct is actually culpable and deserves punishment. *See* Part I.A., *infra*.

Petitioners ask the Court to uproot established law and expose every accused infringer to treble damages under 35 U.S.C. § 284 without regard to willfulness and subject only to a district judge's open-ended discretion. Petitioners make this argument in

the course of attacking the Federal Circuit's two-part test for willful infringement first set forth in *In re Seagate Technology, LLC*, 497 F.3d 1360 (2007). Whether the Federal Circuit's latest test properly implements the statute is a distinct question, however, from whether the statute allows increased damages without willfulness. On that broader question, the unequivocal answer is "no."

The text of section 284 is spare, but the statutory language is given content by the historical precedent Congress built on when enacting the provision in the 1952 Patent Act. Before 1952, courts interpreted the linguistically similar precursor to section 284 to provide district courts with discretion to increase damages only when the defendant's infringement was willful. *See* pp. 8-9, *infra*. There is no evidence that Congress intended to depart from this settled rule when it enacted section 284, and courts over the next 60 years repeatedly reaffirmed it. *See* pp. 9-11, *infra*. Moreover, to the extent there could have been any doubt about the proper interpretation of section 284, Congress eliminated it by adopting a new patent law provision that presupposes and ratifies the willfulness requirement. *See* 35 U.S.C. § 298; pp. 11-12, *infra*.

The established interpretation of section 284 also advances the patent law's objectives. Section 284 authorizes punishment through treble damages, and courts generally impose punitives only for truly culpable conduct. *See* Part I.B., *infra*. In addition, discarding willfulness as a threshold requirement would upset the balance of the patent law by penalizing good-faith patent challenges and honest

(and pro-competitive) attempts to design around patents. It would also encourage further patent litigation abuse—a problem that disparately impacts the financial services industry and imposes a significant tax on financial innovation for widely used products like mobile banking services on smartphones. *See* pp. 17-18, *infra*. Even under current law, companies in the financial services industry are plagued by blanket demand letters asserting vague and often spurious claims of patent infringement, generally with the goal of extracting settlement payments. *Id.* at 16-17. Making punitive damages routinely available in infringement cases is likely to make a serious problem worse by increasing the leverage patentees have to coerce settlement payments from defendants that have little choice other than to pay the price of peace.

If the Court rejects the Federal Circuit's specific *In re Seagate* test, it should not eliminate willfulness as a threshold requirement for increased damages under section 284. The Court should recognize that the assertion of objectively reasonable defenses generally preclude a court from concluding that the defendant infringed the patent willfully. Once again, courts for decades have rejected punitive damages for patent infringement in the face of an objectively reasonable defense. *See* p. 21, *infra*. In other contexts, this Court and the courts of appeals repeatedly have held that defendants do not "willfully" violate the law if they rely on an objectively reasonable defense. *See, e.g.*, *Safeco Ins. Co. of Am. v. Burr*, 551 U.S. 47, 69-70 & n.20 (2007); *see* pp. 21-23, *infra*.

Even if the Court decides that there is merit to petitioners' argument that plausible (but pretextual) defenses should not foreclose eligibility for enhanced damage awards, their objection can be addressed without upending the law. The Court could allow patentees to demonstrate that an accused infringer acted in bad faith and did not actually believe its litigation-driven defense at the time it engaged in the infringing conduct. Relevant considerations to establish bad faith should include: (1) whether the defendant deliberately copied an invention after it was patented; (2) whether the defendant attempted to conceal its infringing conduct; and (3) whether the defendant had a motivation to injure the patentee, as in cases involving commercial rivals. *See* pp. 20, 26-28, *infra*. Any test the Court adopts should allow meaningful appellate review of a district court's decision to increase damages in order to ensure some degree of national consistency with respect to how punitive damages are awarded in patent cases.

ARGUMENT

I. Parties Should Not Be Exposed To Punitive Damages Under Section 284 Absent Willful Infringement

The Federal Circuit's two-part test for evaluating willful infringement set forth by *In re Seagate* is of recent vintage, but the underlying willfulness requirement for enhanced damages is not. This Court, the Federal Circuit, and the regional courts of appeals before it have held that increased damages for patent infringement are only available in cases of willful infringement. Regardless of whether the

Court agrees with the Federal Circuit's current gloss on willfulness, it should not take the further step of uprooting the settled willfulness requirement altogether as petitioners advocate.

A. Section 284 Incorporates The Patent Law's Established Reservation Of Punitive Damages For Acts Of Willful Infringement

Section 284 provides that courts, "upon finding" for a patent claimant, "shall award . . . damages adequate to compensate for the infringement." 35 U.S.C. § 284. A separate clause adds that the court "may increase the damages" for patent infringement "up to three times the amount found or assessed." *Ibid.* The spare language used by Congress in the second clause to authorize enhanced damages must be read in historical context. Congress is always presumed to be "aware of" such context "when it passes legislation," *Miles v. Apex Marine Corp.*, 498 U.S. 19, 32 (1990), and the 1952 Patent Act reflected particularly keen attention to existing interpretations of patent law, as this Court has repeatedly made clear, *see, e.g.*, *Microsoft Corp. v. i4i Ltd. P'ship*, 131 S. Ct. 2238, 2246 (2011).

1. Congress enacted the precursor to section 284 in 1836. In that statute, Congress shifted away from mandatory trebling for patent infringement and instead gave courts "the power" to impose up-to treble damages in actions at law "according to the circumstances." Act of July 4, 1836, ch. 357, § 14, 5 Stat. 117. An 1870 amendment provided courts sitting in equity with the "same powers" to award

enhanced damages. Act of July 8, 1870, ch. 230, § 55, 16 Stat. 198.

From the beginning, courts recognized that the predecessor statute did not grant unlimited discretion to enhance damages. As this Court explained, increased damages were available under the statute specifically to "inflict vindictive or punitive damages" in cases where the injury from infringement was "wanton or malicious." *Seymour v. McCormick*, 57 U.S. (16 How.) 480, 489 (1853). Courts of appeals, in turn, recognized that the "vindictive or punitive damages" authorized by the statute were reserved for cases of willful infringement. Stryker erroneously claims that these courts "treated willfulness only as a *sufficient* condition for enhancement, not as a *necessary* condition." Stryker Br. 34. To the contrary, over a course of decades, courts repeatedly rejected increased damages in cases where infringement was not willful. *See, e.g.*, *Goodyear Tire & Rubber Co. v. Overman Cushion Tire Co.*, 95 F.2d 978, 986 (6th Cir. 1937) (instructing that "no punitive damages shall be assessed" on remand unless the court found the defendant "was guilty of conscious and deliberate infringement" (quotation marks omitted)); *Power Specialty Co. v. Conn. Light & Power Co.*, 80 F.2d 874, 878 (2d Cir. 1936) ("no justification for punitive damages" absent "wanton, deliberate, and willful infringement"); *Rockwood v. Gen. Fire Extinguisher Co.*, 37 F.2d 62, 66 (2d Cir. 1930) ("Punitive damages should not have been awarded by the court below" because "[t]he infringement was not wanton and deliberate"); *Brodie v. Ophir Silver Min. Co.*, 4 F. Cas. 202, 203-04 (C.C.D. Cal. 1867) (No. 1,919) (Field,

J.) (discretion to increase damages "should only be exercised to remunerate parties who have been driven to litigation to sustain their patents by wanton and persistent infringement").

Congress enacted the 1952 Patent Act against that backdrop. Although the text of section 284 does not "reiterate" a willfulness requirement "expressly," there is no basis to "conclude that Congress intended to 'drop'" this established standard. *i4i*, 131 S. Ct. at 2246 (holding that the Patent Act incorporated the established standard of proof for invalidity even though the statutory text did not do so "expressly"). Indeed, far from announcing a departure from the century-old standard for increasing damages, the new section 284's "stated purpose was merely" to "reorganiz[e]" text previously found in multiple statutory provisions. *Aro Mfg. Co. v. Convertible Top Replacement Co.*, 377 U.S. 476, 505 n.20 (1964).

Courts after 1952, not surprisingly, continued to hold that enhanced damages under section 284 are available only in cases of willful infringement. In *Aro Manufacturing*, this Court explained that section 284 allows for "punitive or 'increased' damages" in cases "of willful or bad-faith infringement." 377 U.S. at 508; *see also Dowling v. United States*, 473 U.S. 207, 227 n.19 (1985) (noting that the Patent Act provides "treble damages *for willful infringement*" (emphasis added)). The regional circuits (before the creation of the Federal Circuit) repeatedly held that willful infringement was a prerequisite to increased (*i.e.*, punitive) damages. *See, e.g., Lam, Inc. v. Johns-Manville Corp.*, 668 F.2d 462, 474 (10th Cir. 1982) ("Courts have limited the increases [under section

284] to instances in which the infringement was willful."); *Wilden Pump & Eng'g Co. v. Pressed & Welded Prods. Co.*, 655 F.2d 984, 989 (9th Cir. 1981) (reversing a punitive damages award where the record did not support the district court's willfulness finding); *Eltra Corp. v. Basic, Inc.*, 599 F.2d 745, 757 (6th Cir. 1979) ("In order to support . . . an increased, punitive award there must be a finding that the infringement was willful."); *Yoder Bros, Inc. v. Cal. Fla. Plant Corp.*, 537 F.2d 1347, 1383 (5th Cir. 1976) (reversing award of treble damages where the record indicated that the infringement was not willful); *Union Carbide Corp. v. Graver Tank & Mfg. Co.*, 282 F.2d 653, 675 (7th Cir. 1960) ("[I]t is only on the basis of conscious and willful infringement that exemplary or punitive damages are allowed[.]").[2] The Federal Circuit likewise has long limited punitive damages to cases of willful patent infringement. *E.g.*, *Read Corp. v. Portec Inc.*, 970 F.2d 816, 826 (1992); *Beatrice Foods Co. v. New*

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[2] In *In re Seagate*, Judge Gajarsa acknowledged "the majority rule . that an award of enhanced damages pursuant to section 284 requires a finding of willfulness," but he asserted that some courts had taken a different view. 497 F.3d at 1384 (Gajarsa, J., concurring in the judgment). Neither of the two regional circuit decisions he cited, however, supports his assertion. *See Saturn Mfg., Inc. v. Williams Patent Crusher & Pulverizer Co.*, 713 F.2d 1347, 1358 (8th Cir. 1983) (rejecting the district court's imposition of an "exceptional case" requirement *in addition to* a finding of "willful or wanton infringement"); *Trio Process Corp. v. L. Goldstein's Sons, Inc.*, 638 F.2d 661, 663 (3d Cir. 1981) (concluding that the district court's damage increase was punitive and thus should be excluded from statutory interest calculation); *see also* Stryker Br. 30, 44 (relying on *Trio Process Corp.*).

England Printing & Lithographing Co., 923 F.2d 1576, 1578-80 (1991).

The rule "that an award of enhanced damages requires a showing of willful infringement," *In re Seagate*, 497 F.3d at 1368, is thus firmly rooted in precedent to the point of being black-letter law. *See* 7 Chisum on Patents § 20.03[4][b][iii] (2015) ("The power to increase [infringement damages] is trigged only when the infringer's conduct warrants an exemplary award."). Section 284 is properly interpreted to have incorporated this settled rule, not to have silently rejected it—indeed, so silently that courts from 1952 on consistently overlooked it.

2. Congressional action since 1952 has eliminated any doubt about whether section 284 contemplates a willfulness requirement. In 2011, Congress adopted a new provision as part of the America Invents Act that presupposes (and thus confirms) the existence of a willfulness requirement. *See* 35 U.S.C. § 298. Section 298 provides that patentees may not use evidentiary silence about whether an infringer obtained advice from counsel "to prove that the accused infringer *willfully* infringed the patent." 35 U.S.C. § 298 (emphasis added). Willfulness appears nowhere else in the patent law. Thus, this amendment, which governs the type of proof that can be used to establish willfulness, only "make[s] sense" if willfulness is required to establish punitive damages under section 284 in the first place, and its adoption "signals that Congress ratified" the traditional understanding of the statute. *Tex. Dep't of Hous. & Cmty. Affairs v. Inclusive Communities Project*, 135 S. Ct. 2507, 2520-

21 (2015) (statutory amendments that presupposed the courts of appeals' uniform interpretation of the Fair Housing Act demonstrated Congress's ratification of the settled interpretation).

B. Section 284 Creates A Species Of Punitive Damages, And The Willfulness Requirement Is Consistent With The Ordinary Rule For Punitive Damages

Requiring willful infringement as a predicate for enhanced damages is consistent with the purpose underlying section 284's increased damages clause: empowering courts *to punish* patent infringers whose conduct is particularly blameworthy and should be discouraged. Contrary to petitioners' revisionism, it has long been understood that awards of enhanced damages for patent infringement are punitive in nature. *See Aro Mfg.*, 377 U.S. at 508; *Root v. Lake Shore & M.S. Ry. Co.*, 105 U.S. (15 Otto) 189, 195-96 (1881); *Seymour*, 57 U.S. at 488-89; *Beatrice Foods Co.*, 923 F.2d at 1580; *cf.* D. Owen, *Punitive Damages in Products Liability Litigation*, 74 Mich. L. Rev. 1257, 1262 n.17 (1976) (explaining that multiple damages, like the treble damages provision here, "are plainly a form of punitive damages"). Notwithstanding ongoing scholarly debate, "the consensus" view in the law "is that punitive[]" damages "are aimed not at compensation but principally at retribution and deterring harmful conduct." *Exxon Shipping Co. v. Baker*, 554 U.S. 471, 492 (2008).[3]

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[3] Stryker Corp. contends, somewhat half-heartedly, that courts may use section 284's enhanced damages clause to ensure

To achieve their purpose and serve as legitimate punishments, punitive or exemplary damages are reserved for cases where the defendant's conduct was truly "reprehensibl[e]." *State Farm. Mut. Auto. Ins. Co. v. Campbell*, 538 U.S. 408, 418 (2003). "As the Court stated" many years ago, "exemplary damages imposed on a defendant should reflect 'the enormity of his offense.'" *BMW of N. Am., Inc. v. Gore*, 517 U.S. 559, 575 (1996) (quoting *Day v. Woodworth*, 54 U.S. (13 How.) 363, 371 (1851)).

The Court recognized this precise point in *Seymour*, in which the Court first addressed section 284's precursor in the 1836 Act. The Court noted that Congress had adopted the new discretionary, increased damages provision to enable courts to distinguish "defendant[s] who acted in ignorance or good faith" from "the wanton and malicious pirate." 57 U.S. at 488. Only the latter, the Court explained, should be subject to "exemplary damages," because there was "no good reason" why merely "taking a

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adequate compensation when actual damages are difficult to prove. *See* Stryker Br. 30, 42-43; *see also* Halo Electronics Br. 17. But courts already account for issues of proof in other ways: "when the amount of the damages cannot be ascertained with precision, any doubts regarding the amount must be resolved against the infringer." *Lam, Inc. v. Johns-Manville Corp.*, 718 F.2d 1056, 1065 (Fed Cir. 1983) (citing *Story Parchment Co. v. Paterson Parchment Paper Co.*, 282 U.S. 555, 563 (1931)). Moreover, as Stryker acknowledges, patentees may "seek injunctions, ongoing royalties, and attorney's fees as potential compensation," which Stryker concedes makes "punish[ing] and deter[ing]" culpable conduct," at the very least, "the most common purpose" for enhancing damages under section 284. Stryker Br. 35.

man's property in an invention should be trebly punished." *Id.* at 488-89.

Exposing defendants to enhanced damages in mine-run infringement cases would divorce the law from its punitive purpose, particularly because ordinary patent infringement is a "strict-liability offense." *Commil USA*, 135 S. Ct. at 1926. It is unlikely that Congress intended to make even accidental patent infringers subject to potentially ruinous treble damages. Rather, Congress would have understood that a willfulness requirement was implicit in section 284's authorization to increase damages, because not only is that how courts interpreted the predecessor statute, pp. 8-9, *supra*, but also how punitive damages *typically* operate, *see Exxon Shipping Co.*, 554 U.S. at 493; *Day*, 54 U.S. at 371.

C. Discarding The Willfulness Requirement Would Discourage Innovation

The existing willfulness requirement preserves the breathing space needed for legitimate competition to flourish while still allowing patentees to recover for their actual injuries even in cases of innocent infringement. By contrast, petitioners' approach to enhanced damages under section 284 would over-deter innovation and competition, insulate questionable patents from challenges in federal court, and encourage patent abuse by making treble damages available in every infringement case.

1. "One of the benefits of a patent system" is the incentive it provides "to design around a competitor's products, even when they are patented, thus

bringing a steady flow of innovations to the marketplace." R. Harmon, *Harmon on Patents* § 11.1, at 270 (2007). The line between designing around and infringing a patent, however, is often a fine one, and companies may guess wrong about whether their alternative methods or designs infringe. *See, e.g.*, *Warner-Jenkinson Co. v. Hilton Davis Chem. Co.*, 520 U.S. 17, 24-30 (1997) (discussing infringement by equivalents). If punitive damages were available every time defendants find themselves on the wrong side of the line, companies may stop testing the boundaries of patent claims, which would lead to effective monopolies that extend beyond the legitimate scope of patent rights.

In addition, because patents are sometimes granted when they should not have been and because patentees have obvious incentives to stretch the exclusionary scope of their patents, "[g]ood faith challenges to the validity or scope of patent rights" are generally socially beneficial and "should be encouraged rather than punished." 7 Chisum on Patents § 20.03[4][b]][iii]. Indeed, Congress itself recognizes that patent challenges can be pro-competitive and has created incentives in certain industries for parties to take actions that are likely to trigger patent infringement suits. *See FTC v. Actavis, Inc.*, 133 S. Ct. 2223, 2228-29 (2013) (discussing a statutory provision that awards exclusivity to generic drug manufacturers that challenge the validity or scope of a brand's patent and open themselves to litigation). Putting increased damages on the table in *every* case would deter meritorious patent challenges—a point that Congress has recognized by, for example, allowing

parties to challenge pharmaceutical patents without risking *any* damages, much less enhanced damages. *See id.* at 2233; 35 U.S.C. § 271(e)(4). Companies that are willing to run the risk of paying compensatory damages to test their good-faith belief about the invalidity or scope of a patent may well balk at risking up to *three times* that amount. As a result, more weak patents would remain unchallenged, blocking competition and harming consumers.

2. Removing the requirements for increased damages under section 284 could also exacerbate the problem of abusive patent litigation. *See* A. Davis & K. Jesien, *The Balance of Power in Patent Law: Moving Towards Effectiveness in Addressing Patent Troll Concerns*, 22 Fordham Intell. Prop. Media & Ent. L. J. 835, 843 (2012) (explaining that the willfulness requirement "curtails the leverage" non-practicing entities employ to force settlements).

As "[t]he Court is well aware," "an industry has developed in which firms use patents not as a basis for producing and selling goods but, instead, primarily for obtaining licensing fees." *Commil USA*, 135 S. Ct. at 1930 (quotation marks omitted). These companies "use patents as a sword" to extort payments, irrespective of patent quality. *Ibid.* Such companies often operate by sending boilerplate "demand letters," which "'may be sent very broadly and without prior investigation,'" to numerous potential defendants in order "to obtain payments that are based more on the costs of defending litigation than on the merit of the patent claims." *Ibid.* (quotation marks omitted).

Financial services companies have been particularly attractive targets for these abusive patent litigation practices. One study found that patents directed to financial services related technology are *27-39 times* more likely to be asserted in litigation than patents generally. J. Lerner, *The Litigation of Financial Innovations*, 53 J. L. & Econ. 807, 808 (2010). Moreover, third-party patent owners (*i.e.*, parties other than the inventor or original assignee) brought an unusually high number of these suits, *id.* at 815-16, suggesting that most of the infringement litigation is driven by bulk patent buyers who are opportunistically seeking out lawsuits rather than by genuine innovators who are actually engaging in competition.

One notorious example of patent litigation abuse involves actions filed by Maxim Integrated Products, Inc. against dozens of financial services companies (among others). Maxim acquired patents that were originally issued in connection with the development of a product called the "iButton"—a small steel fob containing basic internal circuitry designed to store and transfer data, such as digital money for a bus or subway fare. In 2012, ten years after those patents issued, Maxim began to assert them against mobile banking applications on smartphones, sending generic notice letters to numerous financial services institutions and subsequently filing suit for alleged patent infringement. *See, e.g.*, Compl. ¶¶ 23-24, *Maxim Integrated Prods., Inc. v. Bank of Am. Corp.*, No. 12-cv-617-RAS (E.D. Tex. Oct. 1, 2012), ECF No. 1 ("Maxim Compl."). Notwithstanding the weaknesses of Maxim's patent claims, the overwhelming majority of accused financial services

institutions settled. *See In re Maxim Integrated Prods., Inc.*, MDL No. 2354, 2015 WL 867651, at *1 & n.1 (W.D. Pa. Feb. 27, 2015). No doubt encouraged by its success in forcing settlements, Maxim recently filed a new round of suits against additional financial services companies based on the same theory.[4] Once again, the cases quickly ended in settlements.[5]

Adopting petitioners' interpretation of section 284 could aggravate the problem of abusive patent litigation—a problem that already "impose[s] a harmful tax on innovation," *Commil USA*, 135 S. Ct. at 1930 (quotation marks omitted). Accused infringers would become even less likely to challenge weak infringement claims if defending risks significant exposure to treble damages for ordinary patent infringement, subject only to the discretion of a single district judge making an "all-things-considered" evaluation.

The elimination of willfulness as a threshold requirement in favor of an all-things-considered standard would be particularly problematic because defendants would lose the ability to take treble

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[4] *See* Complaint for Patent Infringement, *Maxim Integrated Prods., Inc. v M&T Bank Corp.*, No. 15-cv-02167-DLC (S.D.N.Y. Mar. 23, 2015), ECF No. 1; Complaint for Patent Infringement, *Maxim Integrated Prods., Inc. v. HSBC Bank USA, N.A.*, No. 15-cv-02168-DLC (S.D.N.Y. Mar. 23, 2015), ECF No. 1; Complaint for Patent Infringement, *Maxim Integrated Prods., Inc. v. Santander Bank, N.A.*, No. 15-cv-02169-DLC (S.D.N.Y. Mar. 23, 2015), ECF No. 1.

[5] *See* Order of Discontinuance, *Maxim Integrated Prods., Inc. v. M&T Bank Corp.*, No. 15-cv-02167-DLC (S.D.N.Y. Oct. 30, 2015), ECF No. 57 (noting that all three actions had reached settlement).

damages off the table early in litigation through pre-trial motions. Under current law, defendants regularly move early in the case for a ruling that their conduct was not willful in order to limit their exposure and reduce settlement pressure. *See* 7 Chisum on Patents § 20.03[4][b][v][L][9] (collecting decisions granting summary judgment to defendants on willfulness claims); C. Seaman, *Willful Infringement and Enhanced Damages After* In re Seagate: *An Empirical Study*, 97 Iowa L. Rev. 417, 441 (2012) (reporting that, post-*Seagate*, courts ruled on willfulness in pretrial motions in more than one-quarter of all cases).

If companies have no reliable way to insulate themselves from punitive damages—despite the strength of their defenses and the absence of any evidence of bad faith—many will settle rather than face even a small risk of financially crippling awards. Patentees, recognizing the leverage they enjoy, will have reason to bring more dubious infringement cases in the first place.

II. The Court's Test Should Protect Parties That Acted In Good Faith Based On A Reasonable Belief That They Were Not Infringing A Valid Patent

Petitioners object to what they claim is the Federal Circuit's "rigid" two-part test that makes the objective unreasonableness of the accused infringer's defenses a prerequisite to demonstrating willfulness and thus for an award of increased damages. *See* Halo Electronics Br. 18, 21-25; Stryker Br. 19, 45-51. Even if the Court agrees that the Federal

Circuit's *Seagate* test should be modified, the Court should make clear that objective reasonableness is an important factor for identifying willful infringement. Courts should not impose punitive sanctions on a defendant that advances reasonable non-infringement or invalidity defenses absent particularized evidence of the defendant's lack of a good faith belief in the legality of its actions at the time of the infringing conduct. Such evidence could include, for example, evidence of deliberate copying of an invention after it was patented, concealment of misconduct, or motivation to harm. The Court should also make clear that the Federal Circuit retains a meaningful role in reviewing punitive damage awards to ensure that individual district judges in a handful of judicial districts do not drive national patent policy.

A. Objective Reasonableness Should Play An Important Role In Any Test For Increasing Infringement Damages

Petitioners' criticisms of the Federal Circuit's objective reasonableness requirement are substantially overstated. Courts have long held that patent infringement is not willful if the accused infringer relies on an objectively reasonable defense—an approach that mirrors how courts (including this Court) have applied "willfulness" in other areas of law. At most, petitioners' arguments suggest that patentees should be able to prove that infringement was willful when a defense first advanced in litigation, though plausible, was not honestly believed at the time of the infringing conduct and the defendant acted in bad faith.

1. As with the general willfulness requirement, the Federal Circuit's focus on objective reasonableness has a long lineage, even though the *In re Seagate* test is more recent. Courts have recognized for decades—both before and after the 1952 Act—that "[w]illfulness" cannot be established and punitive damages cannot be imposed "where the validity of the patent" or "any possible infringement is open to honest doubt." *Wilden Pump & Eng'g*, 655 F.2d at 989 (quotation marks omitted); *see Artmoore Co. v. Dayless Mfg. Co.*, 208 F.2d 1, 5 (7th Cir. 1953) ("It has been held that a bona fide and reasonable belief that a patent was invalid removes the infringement from the class designated as wanton and willful."); *Enterprise Mfg. Co. v. Shakespeare Co.*, 141 F.2d 916, 921 (6th Cir. 1944) (infringers "should not be made to smart in punitive damages" if they were "honestly mistaken as to a reasonably debatable question of validity"); *Rockwood*, 37 F.2d at 66 (reversing award of punitive damages because "[t]he validity of the patent and its infringement was open to honest doubt").

This established framework is consistent with other areas of law in which willfulness is a prerequisite to enhanced damages. This Court has generally equated "willfulness" with civil "recklessness"—a standard that is satisfied if a party acts in the face of "an unjustifiably high risk of harm that is either known or so obvious that it should be known." *Safeco*, 551 U.S. at 68-69 (quotation marks omitted); *see also McLaughlin v. Richland Shoe Co.*, 486 U.S. 128, 133 (1988) ("willful" violations involve conduct that "is not merely negligent," where the defendant at least "showed reckless disregard" for

whether its conduct was unlawful); *Trans World Airlines, Inc. v. Thurston*, 469 U.S. 111, 125-29 (1985) (similar interpretation of "willful").

Applying a recklessness standard, this Court has rejected willfulness claims when a party's liability defense is objectively reasonable. In *Safeco*, for example, the Court addressed the scope of the Fair Credit Reporting Act, which subjects parties to liability (and potential punitive damages) if they "willfully fail[]" to provide consumers with notice of any adverse action based on information in a consumer credit report. 15 U.S.C. § 1681(a). After concluding that "willful[]" meant at least "reckless," the Court held that the defendant could not be held liable for willful infringement because its reading of the statute, though "erroneous," was "not objectively unreasonable." *Safeco*, 551 U.S. at 57-58, 69. Similarly, in *Trans World Airlines*, the Court held that an employer's violation of the Age Discrimination in Employment Act was not "willful" within the meaning of 29 U.S.C. § 626(b), because the employer had attempted to bring its policies into compliance based on a reasonable understanding of the law. 469 U.S. at 129-30. As a result, the Court held that the lower court's award of "double damages" was improper. *Id.* at 130.

Courts have also looked to objective reasonableness when deciding whether to award enhanced damages for willful infringement of copyrights—a context that is "closely related" to patent infringement. *Fogerty v. Fantasy, Inc.*, 510 U.S. 517, 525 n.12 (1994). Under copyright law, courts may punitively increase statutory damages in

cases of "willful[]" acts of infringement. *See* 17 U.S.C. § 504(c)(2); *see also On Davis v. Gap, Inc.*, 246 F.3d 152, 172 (2d Cir. 2001) (noting that this provision serves "[t]he purpose of punitive damages"). The courts of appeals have "unanimously and routinely" recognized that this standard is satisfied only when the defendant's infringement is knowing or reckless. *Sony BMG Music Entm't v. Tenebaum*, 660 F.3d 487, 507-08 (1st Cir. 2011). Indeed, the Act allows the court to reduce damages in cases with innocent (*i.e.*, non-negligent) defendants and requires courts to "remit" statutory damages "in any case where an infringer believed and had reasonable grounds for believing" that its infringement was fair use. 17 U.S.C. § 504(c)(2).

There is no good reason for diluting the willfulness standard in patent cases or for reducing the role played by objective reasonableness in this context. Petitioners claim that these cases are distinguishable, because, unlike the statutes at issue in the cases discussed, section 284 does not include an express willfulness requirement. *See* Halo Electronics Br. 23; Stryker Br. 45-46. For the reasons explained above, however, section 284 should be interpreted to incorporate a willfulness requirement. *See* Part I, *supra*. Decisions setting the contours for willfulness in other contexts are thus highly relevant and should inform the Court's decision here. Petitioners also insist that their approach is consistent with decisions like *Safeco*. Stryker even observes (correctly) that "the term 'willful' in patent infringement cases signifie[s] a level of heightened culpability greater than negligence on the part of the infringing defendant."

Stryker Br. 46. Elsewhere, however, Stryker argues for the imposition of enhanced damages based on, *inter alia*, whether the defendant "reasonably investigated" the patent after it "knew *or should have known*" about the prospect for infringement, *see id.* at 38 (emphasis added)—a quintessential negligence standard. *See Global-Tech Appliances, Inc. v. SEB S.A.*, 131 S. Ct. 2060, 2071 (2011) ("[A] negligent defendant is one who should have known of a similar risk but, in fact, did not."). The Court should not allow negligence concepts to substitute for willfulness.

2. Petitioners argue at length that the Federal Circuit's test under *In re Seagate* is unfair because it allows defendants to avoid enhanced damages by inventing plausible defenses in litigation. *See* Halo Electronics Br. 24-25, 28; Stryker Br. 47-51. Reducing the importance of objective reasonableness, however, would create its own set of problems, including encouraging the abusive demand letters discussed above, pp. 16-17, *supra*.

Patentees already argue that boilerplate demand letters place defendants "on notice" that they are infringing (or inducing the infringement of) a patent, which they claim entitles them to treble damages for willful infringement. *See, e.g.*, Maxim Compl. ¶¶ 24, 27, 32, 35, 40, 43, 48, 51, Prayer for Relief (d); *see also* D. Prati, In re Seagate Technology LLC: *A Clean Slate for Willfulness*, 23 Berkeley Tech. L.J. 47, 54 (2008) (explaining that demand letters are "motivated by a desire to trigger" a duty of investigation, "which could lead to enhanced damages"). Reducing the importance of objective

reasonableness as a defense and replacing it with a purely subjective inquiry might force companies to incur the considerable expense of investigating every vague notice letter, lest a plaintiff later accuse the defendant of fabricating its defense *post hoc*. *See* D. Prati, *supra*, at 54-55 (noting that some companies receive "hundreds" of demand letters a year, and that each investigation incurs significant legal fees).

Moreover, even assuming that petitioners are right that the *In re Seagate* test goes too far, the Court should not subject parties to punitive damages when their belief concerning invalidity or non-infringement not only is objectively reasonable, but also was "bona fide," *i.e.*, actually held. *Artmoore Co.*, 208 F.2d at 5; *see also Enterprise Mfg. Co.*, 141 F.2d at 921 (punitive damages are unavailable if the defendant is "*honestly mistaken* as to a reasonably debatable question of validity" (emphasis added)); *cf. Bridgeport Music, Inc. v. UMG Recordings, Inc.*, 585 F.3d 267, 279 (6th Cir. 2009) (in a copyright case, recognizing that a reasonable belief of fair use negates a claim of willful infringement if the defense "is formed prior to the infringing acts"). In cases with a defense that is both reasonable and genuine, there is no basis to conclude that the defendant engaged in *willful* infringement that merits punishment through increased damages. *See Safeco*, 551 U.S. at 70 & n.20 ("[I]t would defy history and current thinking to treat a defendant who merely adopts" one "reasonable interpretation" out of many as "a knowing or reckless violator").

Courts have long recognized they should "not readily infer wrong motivation upon the part of those

resisting the validity of patent claims" with defenses that are objectively reasonable. *Enterprise Mfg. Co.*, 141 F.2d at 921. Any approach that discounts whether the defendant's litigation position was objectively reasonable risks diluting the meaning of willfulness by punishing conduct that is at worst negligent, such as if the defendant did not immediately investigate a patent after receiving an initial (likely vague) demand letter from the patentee. Minimizing the objective part of the inquiry would also make punitive damages less predictable—inevitably increasing abusive patentees' leverage to extort settlements.

3. Given these considerations, if the Court concludes that objective unreasonableness is not a prerequisite to increased damages under section 284, the Court should still instruct lower courts that objective reasonableness is an important consideration that makes increased damages inappropriate in most cases. Courts should only increase damages in the face of an objectively reasonable defense if the patentee presents particularized evidence showing that the defense was not honestly held at the time of infringement and that the defendant acted in bad faith with the intent to steal the patentee's intellectual property.

Courts can evaluate the defendant's bad faith under this standard by applying several of the factors the Federal Circuit already uses to guide district court discretion to make damage awards. *See Read*, 970 F.2d at 827. Specifically, courts may look to: (1) whether the defendant "deliberately copied" an invention after it was patented without

meaningful efforts to design-around the patent; (2) whether the defendant "attempted to conceal" its infringing conduct; and (3) whether the defendant had a "motivation [to] harm" the patentee, as in cases involving commercial rivals.[6] *Ibid.*; *see also Knorr-Bremse Systeme Fuer Nutzfahrzeuge GmbH v. Dana Corp.*, 383 F.3d 1337, 1348-49 (Fed. Cir. 2004) (Dyk, J., concurring in part and dissenting in part) (identifying similar considerations as relevant to willfulness). Defendants, in turn, could establish that punitive damages are not warranted by presenting evidence that they investigated the validity and scope of the patent. *See Read*, 970 F.3d at 827. The absence of evidence relating to advice from counsel, however, "may not be used" against the defendants to establish willfulness, 35 U.S.C. § 298.[7]

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[6] Stryker does not specifically identify this third factor, but it correctly observes that enhancement is "less appropriate when requested by a patentee that relies on the threat of treble damages in order to exact exorbitant licensing fees from practicing entities." Stryker Br. 43 (citing *eBay Inc. v. MercExchange, LLC*, 547 U.S. 388, 396 (2006) (Kennedy, J., concurring)). Stryker's approach on this point is well supported by historical practice *See* 3 W. Robinson, *Law of Patents* § 1069, at 365-66 (1890) (indicating that increased damages are unavailable if "the plaintiff is a mere assignee for speculative purposes and not a *bona fide* user of the invention").

[7] Other factors identified by the Federal Circuit in *Read* may also inform the district court's decision whether to increase damages (and by how much), but they are less relevant to the threshold willfulness question. *See* 970 F.2d at 827 (the defendant's "behavior as a party to the litigation," the defendant's "size and financial condition," whether the defendant ceased its conduct during the litigation or took remedial action). Another factor—the "[c]loseness of the case," *ibid.*—overlaps with objective reasonableness.

Petitioners appear to endorse the use of the Federal Circuit's *Read* factors, *see* Halo Electronics Br. 16-18, 25, 27; Stryker Br. 37-42, but their approach is different than the one suggested here. *First*, and most fundamentally, petitioners suggest those factors (or similar factors) should serve as a *substitute* for willfulness. *See* Halo Electronics Br. 27; Stryker Br. 36, 44-45. As a result, they allow for the possibility that a defendant could be subjected to enhanced damages even if the defendant is only "mildly culpable," Halo Electronics Br. 28, or even if the defendant's conduct was "not aggravated in any sense," Stryker Br. 42. By contrast, the position advocated here—and the position that is consistent with the history underlying section 284—requires a threshold showing of willfulness and suggests factors that may inform the decision whether infringement was willful.

Second, although petitioners at times concede that defendants "typically should not be subject to damages enhancements when they adopted reasonable positions on the basis of available facts," Stryker Br. 42, their indeterminate approach allows defendants to face punitive damages for judgments that are reasonable or at worst negligent. *See* pp. 23-24, *supra*. The approach suggested here retains objective reasonableness as a significant consideration that ordinarily negates an inference of willfulness, but it would allow patentees to present evidence that the defense is *post hoc* and that the infringement was in fact "wanton or malicious," *Seymour*, 57 U.S. at 489.

B. Enhanced Damages Awards For Patent Infringement Should Be Susceptible Of Meaningful Appellate Review

If the Court modifies the *In re Seagate* test, it should ensure that any alternative framework allows for meaningful appellate review of a district court's decision to punitively increase damages.

1. "[A]ppellate review" provides an important check on the fact finder's discretion to punish by ensuring that damage awards "are reasonable in their amount and rational in light of their purpose to punish what has occurred and to deter its repetition." *Pac. Mut. Life Ins. Co. v. Haslip*, 499 U.S. 1, 21 (1991); *cf. Cooper Indus., Inc. v. Leatherman Tool Grp., Inc.*, 532 U.S. 424, 436 (2001) (holding that due process challenges to punitive damage awards are reviewed *de novo*). Appellate review is particularly important in patent infringement cases, because it promotes "uniformity in treatment of a given patent," *Markman v. Westview Instruments, Inc.*, 517 U.S. 370, 390 (1996), by enabling the Federal Circuit to make awards more consistent and predictable across similar cases.

Historically, determinations about whether a company has willfully infringed a patent have varied considerably among judicial districts. C. Seaman, *supra*, at 449-51 (reporting for cases decided between 2004 and 2010 that the percentage of willfulness findings ranged from 52.3% (the Eastern District of Texas) to 27.3% (the District of Minnesota)). "Patentees frequently engage in forum shopping," with certain patentees, "often fil[ing] suit in the Eastern District of Texas." *Ibid.* An open-ended

approach to enhanced damages that minimizes the Federal Circuit's role risks allowing a handful of judicial districts to drive national patent law. Such a non-rule would also give patentees more leverage to extort settlements by filing (or threatening to file) suit in high-damage jurisdictions.

Notably, these considerations did not arise to nearly the same degree in *Octane Fitness, LLC v. Icon Health & Fitness, Inc.*, 134 S. Ct. 1749 (2014), and *Highmark Inc. v. Allcare Health Management Systems, Inc.*, 134 S. Ct. 1744 (2014), in which the Court respectively addressed the standards for attorney's fee awards under 35 U.S.C. § 285 and appellate review of those awards. Although attorney's fee awards can be substantial, they do not have the potential to expose parties to hundreds of millions of dollars in the form of punitive damages in high-value patent cases. They also may be assessed based on "the unreasonable manner in which the case was litigated," *Octane*, 134 S. Ct. at 1756—matters that district courts are particularly well suited to address, and that have few, if any, national implications for patent rights. Finally, district-by-district variations are much less likely to lead to forum shopping, because attorney's fees can be shifted to either party, whereas only the defendant faces increased risk under section 284.

2. Meaningful appellate review is possible even assuming an abuse of discretion standard is applied to the district court's ultimate decision whether to punitively increase infringement damages. *See Spectralytics, Inc. v. Cordis Corp.*, 649 F.3d 1336, 1347 (Fed. Cir. 2011) (applying this standard).

Because "[a] district court would necessarily abuse its discretion if it based its ruling on an erroneous view of the law," *Highmark*, 134 S. Ct. at 1748 n.2, appellate courts should be able to reverse any decisions to increase damages that were not premised on willful infringement, *see* Part I, *supra*. Under the approach advocated by Askeladden, appellate courts would also properly reverse in cases where the lower court's willfulness determination was based on legal mistakes about whether certain defenses were objectively unreasonable or clear factual errors concerning the defendant's actual beliefs and intentions at the time of infringement.[8]

The key question here is not so much the standard of review, but rather whether district courts are required to "explain the basis" for enhanced awards, *Read*, 970 F.2d at 828, according

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[8] The Federal Circuit has held that willfulness is determined by the jury rather than the court if a jury trial is requested. *See Nat'l Presto Indus., Inc. v. West Bend Co.*, 76 F.3d 1185, 1193 (Fed. Cir. 1996). That conclusion is questionable and should be reviewed in an appropriate case. *See* Pet. App. in No. 14-1514, at 30-31 (O'Malley, J., concurring). The text of section 284 vests power to enhance damages in "the court," not in the jury. 35 U.S.C. § 284; *see also Feltner v. Columbia Pictures Tel., Inc.*, 523 U.S. 340, 345-47 (1998) (interpreting similarly worded Copyright Act provision). There does not appear to be any common law precedent of juries awarding enhanced damages for patent infringement, and functional considerations favor allocating the issue to the court. *See generally* J. Pegram, *The Willful Patent Infringement Dilemma and the 7th Amendment*, 86 J. Pat. & Trademark Off. Soc'y 271, 283 (2004); *see also Birdsall v. Coolidge*, 93 U.S. (3 Otto) 64, 64 (1876) (explaining that "jur[ies] are strictly limited in their finding to the actual damages which the plaintiff has sustained by the infringement" while the power to increase damages is "given to the court").

to relatively fixed criteria. Petitioners' open-ended, all-things-considered proposal provides no clear guidance and would leave punitive damage awards for patent infringement practically unreviewable. The Court should reject it.

CONCLUSION

The Court should reaffirm that willfulness is a prerequisite to increased damages under section 284, and it should hold that the objective reasonableness of a defendant's legal position is, at a minimum, an important consideration in deciding whether to punitively increase infringement damages.

Respectfully submitted.

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